Tesla’s market valuation pushes past Ford and GM

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The electric car manufacturer Tesla surpassed GM briefly this past week as the most valued US car manufacturer, achieving a market capitalization Monday (the total value of all stocks issued) of a little over $50 billion. While Tesla’s stock has dipped slightly after this high, below that of GM, its market capitalization is still higher than the Ford Corporation.

The valuation of Tesla by the stock market at a higher level than GM and Ford is remarkable given that Tesla produces a small fraction of the number of cars that either company makes. For example, in the second quarter of 2016, Tesla shipped 24,500 vehicles, nearly double what it had done the year before. However, GM sold over 2.4 million automobiles in the same quarter, 100 times more vehicles.

Since late 2016, Tesla’s market price has shot up from $30 billion to $47.62 billion today. Meanwhile, GM and Ford have seen their market capitalization decline in the past few months, a general trend for the automakers since 2014.

The valuation of Tesla at this seemingly absurd level is the result of massive financial bets by speculators that the company will be at the forefront of a coming automated and electric revolution in the global car industry. These speculators have also been driven by cheap, hot money on Wall Street which has caused the whole stock market to reach new, unprecedented levels. This trend, which began under the administration of former president Barack Obama, was further bolstered by the Trump administration’s ongoing dismantling of barriers and regulations on large corporations.

Since its founding in 2003, Tesla has focused on producing electric luxury vehicles, releasing its Tesla Roadster in 2008, followed by its Model S, an electric luxury sedan, in 2012. Although its products have been aimed at upper-class consumers, its newest car, the Model 3, will be released this summer with a price tag around $35,000 before rebates, in an attempt to grab a larger share of the auto market.

Tesla’s business model rests partly on its bet that its superior technology in the way of batteries and automated driving will allow it to wrestle a substantial share of the future car market from the long-standing auto giants. Elon Musk, founder and CEO of Tesla, said in a tweet on April 3, “Tesla is absurdly overvalued if based on the past, but that’s irrelevant. A stock price represents risk-adjusted future cash flows.”

Tesla is pioneering lithium-ion cell development and production—a primary component of all electronic devices that run on batteries. It has invested about $2 billion dollars into a gigantic battery factory outside of Reno, in the state of Nevada. In combination with this, Tesla has launched a home battery product and is working to release roofs for homes that are solar panels but look like regular roofs.

Simultaneously, the company is a leader in automated-driving—which auto and tech companies are racing to perfect. Most car companies and tech companies plan on launching a fully-automated car by 2020, including Google, Toyota, Uber, Volvo, Nissan, Daimler, Honda, and PSA.

Tesla, however, is planning on having one ready by next year and has the advantage of already having autopilot features on most of its cars for some time, allowing the company to collect large amounts of data and better perfect its software. Meanwhile, Ford has partnered with Uber to produce fully autonomous ride-sharing vehicles in 2021 and GM with Lyft to do the same thing, with test versions coming out in 2018.

Tesla’s emergence as the most-valued US car company reflects general trends in the economy. In 2006, Apple, Facebook, Google, and Amazon were far down the list for the most valuable companies in the world. Today, Apple is the most valuable company in the world ($753 billion), followed by Alphabet (Google's parent company), Microsoft, and then Amazon. Facebook is the eighth most valuable company, in-between Johnson & Johnson and JPMorgan Chase.

These companies are all making enormous revenues off of their capacity to arrive at groundbreaking technology first. The tremendous money at stake means that these companies are at each other's throats when it comes to property rights and research. Whoever achieves a given technology first, and reliably, can easily push out its rivals.

This has resulted in several vicious lawsuits involving Google, Uber, Tesla and others—an irrational, expensive, and time-consuming way to achieve scientific and technological progress. Undoubtedly, if these companies worked together, and solved the technical problems collectively, technology would develop at an even faster rate.

While this shift toward high-tech reflects changes in the physical economy toward production and distribution systems highly dependent on the most advanced forms of technology and computer programming, it reflects equally, if not more so, the immense financial speculation that grips the high-tech industry.

Since the crash of 2008 the world's financial markets have been flush with cheap credit due to low interest rates and quantitative easing. This has led to large quantities of hot money trying to find the most profitable outlet. Several top companies, like Amazon and Google, have only recently made profits but have grown enormously in market value due to their tremendous growth and market dominance in their given industries.

Tesla and other tech companies have seen their stocks soar as they become repositories for this flood of cheap credit. The stock market as a whole has shot far past the heights it reached prior to the 2007 financial crisis, with tech stocks pioneering this gigantic new bubble.

In addition to these considerations, Tesla also benefits from political connections with Trump. Elon Musk, along with many other tech leaders, is on Trump's economic advisory council.

Though he criticized Trump before the election, post-election, the billionaire Musk has been the largest proponent of working with Trump on the advisory board. In contrast, several members, including the Uber CEO, have quit in protest at Trump's immigration policies. Tesla's cars, which are exclusively assembled in the US, are a bargaining chip for Musk when it comes to winning further subsidies or price rebates from the government.